

# Senate Study Bill 1192

SENATE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON WAYS  
AND MEANS BILL BY  
CHAIRPERSON McKIBBEN)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

## A BILL FOR

1 An Act relating to the individual income tax by imposing a single  
2 rate tax, eliminating the deduction for federal income taxes  
3 paid, and eliminating the alternative minimum tax, and  
4 providing for sales tax-related studies, and including  
5 effective and applicability date provisions.  
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:  
7 TLSB 3435SC 80  
8 mg/sh/8

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1 1 DIVISION I  
1 2 INDIVIDUAL INCOME TAX  
1 3 SINGLE TAX RATE  
1 4 Section 1. Section 422.4, subsections 1 and 2, Code 2003,  
1 5 are amended by striking the subsections.  
1 6 Sec. 2. Section 422.4, subsection 16, Code 2003, is  
1 7 amended to read as follows:  
1 8 16. ~~The words "taxable~~ "Taxable income" ~~mean means~~ the net  
1 9 income as defined in section 422.7 minus the deductions  
1 10 allowed by section 422.9, in the case of individuals, ~~in. In~~  
1 11 the case of estates or trusts, ~~the words "taxable income" mean~~  
1 12 ~~means~~ the taxable income, ~~(without a deduction for personal~~  
1 13 ~~exemption),~~ as computed for federal income tax purposes under  
1 14 the Internal Revenue Code, but with the adjustments specified  
1 15 in section 422.7 ~~plus the Iowa income tax deducted in~~  
~~1 16 computing the federal taxable income and minus federal income~~  
~~1 17 taxes as provided in section 422.9.~~  
1 18 Sec. 3. Section 422.5, subsection 1, Code 2003, is amended  
1 19 by striking the subsection and inserting in lieu thereof the  
1 20 following:  
1 21 1. a. A tax is imposed upon every resident and  
1 22 nonresident of the state which tax shall be levied, collected,  
1 23 and paid annually upon and with respect to the entire taxable  
1 24 income at the rate of three and one-half percent.  
1 25 b. (1) The tax imposed upon the taxable income of a  
1 26 nonresident shall be computed by reducing the amount  
1 27 determined pursuant to paragraph "a" by the amounts of  
1 28 nonrefundable credits under this division and by multiplying  
1 29 this resulting amount by a fraction of which the nonresident's  
1 30 net income allocated to Iowa, as determined in section 422.8,  
1 31 subsection 2, paragraph "a", is the numerator and the  
1 32 nonresident's total net income computed under section 422.7 is  
1 33 the denominator. This provision also applies to individuals  
1 34 who are residents of Iowa for less than the entire tax year.  
1 35 (2) The tax imposed upon the taxable income of a resident  
2 1 shareholder in an S corporation which has in effect for the  
2 2 tax year an election under subchapter S of the Internal  
2 3 Revenue Code and carries on business within and without the  
2 4 state may be computed by reducing the amount determined  
2 5 pursuant to paragraph "a" by the amounts of nonrefundable  
2 6 credits under this division and by multiplying this resulting  
2 7 amount by a fraction of which the resident's net income  
2 8 allocated to Iowa, as determined in section 422.8, subsection  
2 9 2, paragraph "b", is the numerator and the resident's total  
2 10 net income computed under section 422.7 is the denominator.  
2 11 If a resident shareholder has elected to take advantage of  
2 12 this subparagraph, and for the next tax year elects not to  
2 13 take advantage of this subparagraph, the resident shareholder  
2 14 shall not reelect to take advantage of this subparagraph for  
2 15 the three tax years immediately following the first tax year  
2 16 for which the shareholder elected not to take advantage of  
2 17 this subparagraph, unless the director consents to the  
2 18 reelection. This subparagraph also applies to individuals who  
2 19 are residents of Iowa for less than the entire tax year.

2 20 c. (1) A bill containing among its provisions an increase  
2 21 in the tax rate under this section or the imposition upon  
2 22 individuals or estates or trusts of an income surtax or  
2 23 alternative minimum tax shall require the affirmative votes of  
2 24 at least three-fourths of the members elected to each house of  
2 25 the general assembly for passage.

2 26 (2) A lawsuit challenging the proper enactment of a bill  
2 27 pursuant to subparagraph (1) shall be filed no later than one  
2 28 year following the enactment. Failure to file such a lawsuit  
2 29 within the one-year time limit shall negate the three-fourths  
2 30 majority requirement as it applies to the bill.

2 31 (3) Each bill to which subparagraph (1) applies shall  
2 32 include a separate provision describing the requirements for  
2 33 enactment prescribed by subparagraphs (1) and (2).

2 34 Sec. 4. Section 422.5, subsection 2, Code 2003, is amended  
2 35 by striking the subsection and inserting in lieu thereof the  
3 1 following:

3 2 2. a. However, if the married persons' filing jointly,  
3 3 unmarried head of household's, or surviving spouse's net  
3 4 income exceeds fifteen thousand dollars or eleven thousand  
3 5 dollars in the case of all other persons, the regular tax  
3 6 imposed under this division shall be the lesser of the product  
3 7 of eight percent times the portion of the net income in excess  
3 8 of fifteen thousand dollars or eleven thousand dollars, as  
3 9 applicable, or the regular tax liability computed without  
3 10 regard to this paragraph.

3 11 b. Paragraph "a" does not apply to estates and trusts.  
3 12 Married taxpayers electing to file separately shall compute  
3 13 the alternate tax described in paragraph "a" using the total  
3 14 net income of the husband and wife. The alternate tax  
3 15 described in paragraph "a" does not apply if one spouse elects  
3 16 to carry back or carry forward the loss as provided in section  
3 17 422.9, subsection 3. A person who is claimed as a dependent  
3 18 by another person as defined in section 422.12 shall not  
3 19 receive the benefit of paragraph "a" if the person claiming  
3 20 the dependent has net income exceeding fifteen thousand  
3 21 dollars or eleven thousand dollars as applicable or the person  
3 22 claiming the dependent and the person's spouse have combined  
3 23 net income exceeding fifteen thousand dollars or eleven  
3 24 thousand dollars as applicable.

3 25 Sec. 5. Section 422.5, subsections 5 and 7, Code 2003, are  
3 26 amended by striking the subsections.

3 27 Sec. 6. Section 422.7, Code 2003, is amended by striking  
3 28 the section and inserting in lieu thereof the following:

3 29 422.7 "NET INCOME" == HOW COMPUTED.  
3 30 The term "net income" means the adjusted gross income  
3 31 before the net operating loss deduction as properly computed  
3 32 for federal income tax purposes under the Internal Revenue  
3 33 Code, with the following adjustments:

3 34 1. The adjusted gross income is adjusted by adding the sum  
3 35 of the following:

4 1 a. Add the amount of federal income tax refunds received  
4 2 in a tax year beginning on or after January 1, 2004, but  
4 3 before January 1, 2007, to the extent that the federal income  
4 4 tax was deducted on an Iowa individual income tax return for a  
4 5 tax year beginning prior to January 1, 2004.

4 6 b. Add interest and dividends from foreign securities and  
4 7 from securities of state and other political subdivisions  
4 8 exempt from federal income tax under the Internal Revenue  
4 9 Code.

4 10 c. Add interest and dividends from regulated investment  
4 11 companies exempt from federal income tax under the Internal  
4 12 Revenue Code.

4 13 d. Add, to the extent not already included, income from  
4 14 the sale of obligations of the state and its political  
4 15 subdivisions. Income from the sale of these obligations is  
4 16 exempt from the taxes imposed by this division only if the law  
4 17 authorizing these obligations specifically exempts the income  
4 18 from the sale from the state individual income tax.

4 19 e. Add the amount resulting from the cancellation of a  
4 20 participation agreement refunded to the taxpayer as a  
4 21 participant in the Iowa educational savings plan trust under  
4 22 chapter 12D to the extent previously deducted as a  
4 23 contribution to the trust.

4 24 2. The adjusted gross income is adjusted by subtracting  
4 25 the sum of the following:

4 26 a. Subtract the amount of federal income taxes paid or  
4 27 accrued, as the case may be, in a tax year beginning on or  
4 28 after January 1, 2004, but before January 1, 2007, to the  
4 29 extent the federal tax payment is for a tax year beginning  
4 30 prior to January 1, 2004.

4 31 b. Subtract interest and dividends from federal  
4 32 securities.

4 33 c. Subtract the loss on the sale or exchange of a share of  
4 34 a regulated investment company held for six months or less to  
4 35 the extent the loss was disallowed under section 852(b)(4)(B)  
5 1 of the Internal Revenue Code.

5 2 d. (1) Subtract, to the extent included, the amount of  
5 3 additional social security benefits taxable under the Internal  
5 4 Revenue Code for tax years beginning on or after January 1,  
5 5 1994. The amount of social security benefits taxable as  
5 6 provided in section 86 of the Internal Revenue Code, as  
5 7 amended up to and including January 1, 1993, continues to  
5 8 apply for state income tax purposes for tax years beginning on  
5 9 or after January 1, 1994.

5 10 (2) Married taxpayers, who file a joint federal income tax  
5 11 return and who elect to file separate returns for state income  
5 12 tax purposes, shall allocate between the spouses the amount of  
5 13 benefits subtracted under subparagraph (1) from net income in  
5 14 the ratio of the social security benefits received by each  
5 15 spouse to the total of these benefits received by both  
5 16 spouses.

5 17 e. (1) For a person who is disabled, or is fifty-five  
5 18 years of age or older, or is the surviving spouse of an  
5 19 individual or a survivor having an insurable interest in an  
5 20 individual who would have qualified for the exemption under  
5 21 this paragraph for the tax year, subtract, to the extent  
5 22 included, the total amount of a governmental or other pension  
5 23 or retirement pay, including, but not limited to, defined  
5 24 benefit or defined contribution plans, annuities, individual  
5 25 retirement accounts, plans maintained or contributed to by an  
5 26 employer, or maintained or contributed to by a self-employed  
5 27 person as an employer, and deferred compensation plans or any  
5 28 earnings attributable to the deferred compensation plans, up  
5 29 to a maximum of six thousand dollars for a person, other than  
5 30 a husband or wife, who files a separate state income tax  
5 31 return and up to a maximum of twelve thousand dollars for a  
5 32 husband and wife who file a joint state income tax return.

5 33 (2) However, a surviving spouse who is not disabled or  
5 34 fifty-five years of age or older can only exclude the amount  
5 35 of pension or retirement pay received as a result of the death  
6 1 of the other spouse. A husband and wife filing separate state  
6 2 income tax returns are allowed a combined maximum exclusion  
6 3 under this paragraph "e" of up to the amount allowed for a  
6 4 husband and wife who file a joint state income tax return.  
6 5 The exclusion shall be allocated to the husband or wife in the  
6 6 proportion that each spouse's respective pension and  
6 7 retirement pay received bears to total combined pension and  
6 8 retirement pay received.

6 9 f. Notwithstanding the method for computing income from an  
6 10 installment sale under section 453 of the Internal Revenue  
6 11 Code, as defined in section 422.3, the method to be used in  
6 12 computing income from an installment sale shall be the method  
6 13 under section 453 of the Internal Revenue Code, as amended up  
6 14 to and including January 1, 2000. A taxpayer affected by this  
6 15 paragraph shall make adjustments in the adjusted gross income  
6 16 pursuant to rules adopted by the director.

6 17 The adjustment to net income provided in this paragraph is  
6 18 repealed for tax years beginning on or after January 1, 2002.  
6 19 However, to the extent that a taxpayer using the accrual  
6 20 method of accounting reported the entire capital gain from the  
6 21 sale or exchange of property on the Iowa return for the tax  
6 22 year beginning in the 2001 calendar year and the capital gain  
6 23 was reported on the installment method on the federal income  
6 24 tax return, any additional installment from the capital gain  
6 25 reported for federal income tax purposes is not to be included  
6 26 in net income in tax years beginning on or after January 1,  
6 27 2002.

6 28 g. Subtract, if the taxpayer is the owner of an individual  
6 29 development account certified under chapter 541A at any time  
6 30 during the tax year, all of the following:

6 31 (1) Contributions made to the account by persons and  
6 32 entities, other than the taxpayer, as authorized in chapter  
6 33 541A.

6 34 (2) The amount of any savings refund authorized under  
6 35 section 541A.3, subsection 1.

7 1 (3) Earnings from the account.

7 2 h. (1) Subtract the maximum contribution that may be  
7 3 deducted for income tax purposes as a participant in the Iowa  
7 4 educational savings plan trust pursuant to section 12D.3,  
7 5 subsection 1, paragraph "a".

7 6 (2) Subtract, to the extent included, income from interest

7 7 and earnings received from the Iowa educational savings plan  
7 8 trust created in chapter 12D.

7 9 (3) Subtract, to the extent not deducted for federal  
7 10 income tax purposes, the amount of any gift, grant, or  
7 11 donation made to the Iowa educational savings plan trust for  
7 12 deposit in the endowment fund of that trust.

7 13 i. Subtract, to the extent included, active duty pay  
7 14 received by a person in the national guard or armed forces  
7 15 military reserve for services performed on or after August 2,  
7 16 1990, pursuant to military orders related to the Persian Gulf  
7 17 Conflict.

7 18 j. Subtract, to the extent included, active duty pay  
7 19 received by a person in the national guard or armed forces  
7 20 military reserve for service performed on or after November  
7 21 21, 1995, pursuant to military orders related to peacekeeping  
7 22 in Bosnia=Herzegovina.

7 23 k. Subtract, to the extent included, the following:

7 24 (1) Payments made to the taxpayer because of the  
7 25 taxpayer's status as a victim of persecution for racial,  
7 26 ethnic, or religious reasons by Nazi Germany or any other Axis  
7 27 regime or as an heir of such victim.

7 28 (2) Items of income attributable to, derived from, or in  
7 29 any way related to assets stolen from, hidden from, or  
7 30 otherwise lost to a victim of persecution for racial, ethnic,  
7 31 or religious reasons by Nazi Germany or any other Axis regime  
7 32 immediately prior to, during, and immediately after World War  
7 33 II, including, but not limited to, interest on the proceeds  
7 34 receivable as insurance under policies issued to a victim of  
7 35 persecution for racial, ethnic, or religious reasons by Nazi  
8 1 Germany or any other Axis regime by European insurance  
8 2 companies immediately prior to and during World War II.  
8 3 However, income from assets acquired with such assets or with  
8 4 the proceeds from the sale of such assets shall not be  
8 5 subtracted. This subparagraph shall only apply to a taxpayer  
8 6 who was the first recipient of such assets after recovery of  
8 7 the assets and who is a victim of persecution for racial,  
8 8 ethnic, or religious reasons by Nazi Germany or any other Axis  
8 9 regime or is an heir of such victim.

8 10 3. a. In determining the amount of federal income tax  
8 11 refunds or taxes paid or accrued under subsection 1 or  
8 12 subsection 2, for tax years beginning in the 2001 calendar  
8 13 year, the amount shall not be adjusted by the amount received  
8 14 during the tax year of the advanced refund of the rate  
8 15 reduction tax credit provided pursuant to the federal Economic  
8 16 Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No.  
8 17 107=16, and the advanced refund of such credit shall not be  
8 18 subject to taxation under this division.

8 19 b. In determining the amount of federal income tax refunds  
8 20 or taxes paid or accrued under subsection 1 or subsection 2,  
8 21 for tax years beginning in the 2002 calendar year, the amount  
8 22 for the tax year shall not be adjusted by the amount of the  
8 23 rate reduction credit received in the tax year to the extent  
8 24 that the credit is attributable to the rate reduction credit  
8 25 provided pursuant to the federal Economic Growth and Tax  
8 26 Relief Reconciliation Act of 2001, Pub. L. No. 107=16, and the  
8 27 amount of such credit shall not be taxable under this  
8 28 division.

8 29 Sec. 7. Section 422.8, subsection 2, paragraph a, Code  
8 30 2003, is amended to read as follows:

8 31 a. Nonresident's net income allocated to Iowa is the net  
8 32 income, or portion of net income, which is derived from a  
8 33 business, trade, profession, or occupation carried on within  
8 34 this state or income from any property, trust, estate, or  
8 35 other source within Iowa. However, income derived from a  
9 1 business, trade, profession, or occupation carried on within  
9 2 this state and income from any property, trust, estate, or  
9 3 other source within Iowa shall not include distributions from  
9 4 pensions, including defined benefit or defined contribution  
9 5 plans, annuities, individual retirement accounts, and deferred  
9 6 compensation plans or any earnings attributable thereto so  
9 7 long as the distribution is directly related to an  
9 8 individual's documented retirement and received while the  
9 9 individual is a nonresident of this state. If a business,  
9 10 trade, profession, or occupation is carried on partly within  
9 11 and partly without the state, only the portion of the net  
9 12 income which is fairly and equitably attributable to that part  
9 13 of the business, trade, profession, or occupation carried on  
9 14 within the state is allocated to Iowa for purposes of section  
9 15 422.5, subsection 1, paragraph ~~"j"~~ "b", and section 422.13 and  
9 16 income from any property, trust, estate, or other source  
9 17 partly within and partly without the state is allocated to

9 18 Iowa in the same manner, except that annuities, interest on  
9 19 bank deposits and interest-bearing obligations, and dividends  
9 20 are allocated to Iowa only to the extent to which they are  
9 21 derived from a business, trade, profession, or occupation  
9 22 carried on within the state.

9 23 Sec. 8. Section 422.8, subsection 4, Code 2003, is amended  
9 24 by striking the subsection.

9 25 Sec. 9. Section 422.9, unnumbered paragraph 1 and  
9 26 subsections 1 and 2, Code 2003, are amended by striking the  
9 27 unnumbered paragraph and the subsections and inserting in lieu  
9 28 thereof the following:

9 29 In computing taxable income of individuals, there shall be  
9 30 deducted from net income the following:

9 31 1. A standard deduction equal to the following:

9 32 a. For a single individual, or a married person filing  
9 33 separately, two thousand dollars.

9 34 b. For a head of household, or a husband and wife filing a  
9 35 joint return, four thousand dollars.

10 1 c. For each dependent, an additional two thousand dollars.

10 2 As used in this section, the term "dependent" has the same  
10 3 meaning as provided by the Internal Revenue Code.

10 4 2. In addition to the amount in subsection 1, the  
10 5 following:

10 6 a. For a single individual, husband, wife, or head of  
10 7 household, an additional exemption of one thousand dollars for  
10 8 each such individual who has attained the age of sixty-five  
10 9 years before the close of the tax year or on the first day  
10 10 following the end of the tax year.

10 11 b. For a single individual, husband, wife, or head of  
10 12 household, an additional exemption of one thousand dollars for  
10 13 each such individual who is blind at the close of the tax  
10 14 year. For the purposes of this paragraph, an individual is  
10 15 blind only if the individual's central visual acuity does not  
10 16 exceed twenty-two hundredths in the better eye with correcting  
10 17 lenses, or if the individual's visual acuity is greater than  
10 18 twenty-two hundredths but is accompanied by a limitation in  
10 19 the fields of vision such that the widest diameter of the  
10 20 visual field subtends an angle no greater than twenty degrees.

10 21 Sec. 10. Section 422.9, subsections 4 through 7, Code  
10 22 2003, are amended by striking the subsections.

10 23 Sec. 11. Section 422.11B, subsection 1, Code 2003, is  
10 24 amended to read as follows:

10 25 1. There is allowed as a credit against the tax determined  
10 26 in section 422.5, subsection 1, paragraphs "a" through "j" for  
10 27 a tax year an amount equal to the minimum tax credit for that  
10 28 tax year.

10 29 The minimum tax credit for a tax year is the excess, if  
10 30 any, of the adjusted net minimum tax imposed for all prior tax  
10 31 years beginning on or after January 1, 1987, but before  
10 32 January 1, 2004, over the amount allowable as a credit under  
10 33 this section for those prior tax years.

10 34 If a minimum tax credit is available to a tax period  
10 35 beginning on or after January 1, 2004, the credit can be  
11 1 carried over to tax years beginning on or after January 1,  
11 2 2004, but before January 1, 2007. The minimum tax credit is  
11 3 limited to the tax determined in section 422.5, subsection 1,  
11 4 paragraphs "a" and "b".

11 5 Sec. 12. Section 422.12, subsection 1, Code 2003, is  
11 6 amended by striking the subsection and inserting in lieu  
11 7 thereof the following:

11 8 1. A personal exemption credit in the following amounts:

11 9 a. If the net income of an estate or trust, a single  
11 10 individual, or a married person filing a separate return is no  
11 11 more than twenty-five thousand dollars, forty dollars.

11 12 b. If the net income of a head of household or a husband  
11 13 and wife filing a joint return is no more than fifty thousand  
11 14 dollars, eighty dollars.

11 15 c. For each dependent of a taxpayer described in paragraph  
11 16 "a" or "b", an additional forty dollars. As used in this  
11 17 section, "dependent" means the same as provided in the  
11 18 Internal Revenue Code.

11 19 Sec. 13. Section 422.12B, subsection 2, Code 2003, is  
11 20 amended to read as follows:

11 21 2. Married taxpayers electing to file separate returns ~~or~~  
11 22 ~~filing separately on a combined return~~ may avail themselves of  
11 23 the earned income credit by allocating the earned income  
11 24 credit to each spouse in the proportion that each spouse's  
11 25 respective earned income bears to the total combined earned  
11 26 income. Taxpayers affected by the allocation provisions of  
11 27 section 422.8 shall be permitted a deduction for the credit  
11 28 only in the amount fairly and equitably allocable to Iowa

11 29 under rules prescribed by the director.  
11 30 Sec. 14. Section 422.12C, subsection 3, Code 2003, is  
11 31 amended to read as follows:  
11 32 3. Married taxpayers who have filed joint federal returns  
11 33 electing to file separate returns ~~or to file separately on a~~  
~~11 34 combined return form~~ must determine the child and dependent  
11 35 care credit under subsection 1 based upon their combined net  
12 1 income and allocate the total credit amount to each spouse in  
12 2 the proportion that each spouse's respective net income bears  
12 3 to the total combined net income. Nonresidents or part-year  
12 4 residents of Iowa must determine their Iowa child and  
12 5 dependent care credit in the ratio of their Iowa source net  
12 6 income to their all source net income. Nonresidents or part-  
12 7 year residents who are married and elect to file separate  
12 8 returns ~~or to file separately on a combined return form~~ must  
12 9 allocate the Iowa child and dependent care credit between the  
12 10 spouses in the ratio of each spouse's Iowa source net income  
12 11 to the combined Iowa source net income of the taxpayers.  
12 12 Sec. 15. Section 422.13, subsection 1, paragraph c, and  
12 13 subsection 1A, Code 2003, are amended to read as follows:  
12 14 c. However, if that part of the net income of a  
12 15 nonresident which is allocated to Iowa pursuant to section  
12 16 422.8, subsection 2, is less than one thousand dollars the  
12 17 nonresident is not required to make and sign a return ~~except~~  
~~12 18 when the nonresident is subject to the state alternative~~  
~~12 19 minimum tax imposed pursuant to section 422.5, subsection 1,~~  
~~12 20 paragraph "k".~~  
12 21 1A. Notwithstanding any other provision in this section, a  
12 22 resident of this state is not required to make and file a  
12 23 return if the person's net income is equal to or less than ~~the~~  
~~12 24 appropriate dollar amount listed in section 422.5, subsection~~  
~~12 25 2, upon which tax is not imposed fifteen thousand dollars in~~  
~~12 26 the case of married persons filing jointly, unmarried heads of~~  
~~12 27 households, and surviving spouses, or is equal to or less than~~  
~~12 28 eleven thousand dollars in the case of all other persons.~~ A  
12 29 nonresident of this state is not required to make and file a  
12 30 return if the person's total net income ~~in section 422.5,~~  
~~12 31 subsection 1, paragraph "j",~~ is equal to or less than ~~the~~  
~~12 32 appropriate dollar amount provided in section 422.5,~~  
~~12 33 subsection 2, upon which tax is not imposed fifteen thousand~~  
~~12 34 dollars in the case of married persons filing jointly,~~  
~~12 35 unmarried heads of households, and surviving spouses, or is~~  
~~13 1 equal to or less than eleven thousand dollars in the case of~~  
~~13 2 all other persons.~~ For purposes of this subsection, the  
13 3 amount of a lump sum distribution subject to separate federal  
13 4 tax shall be included in net income for purposes of  
13 5 determining if a resident is required to file a return and the  
13 6 portion of the lump sum distribution that is allocable to Iowa  
13 7 is included in total net income for purposes of determining if  
13 8 a nonresident is required to make and file a return.  
13 9 Sec. 16. Section 422.21, unnumbered paragraphs 1 and 2,  
13 10 Code 2003, are amended to read as follows:  
13 11 Returns shall be in the form the director prescribes, and  
13 12 shall be filed with the department on or before the last day  
13 13 of the fourth month after the expiration of the tax year.  
13 14 However, co-operative associations as defined in section  
13 15 6072(d) of the Internal Revenue Code shall file their returns  
13 16 on or before the fifteenth day of the ninth month following  
13 17 the close of the taxable year and nonprofit corporations  
13 18 subject to the unrelated business income tax imposed by  
13 19 section 422.33, subsection 1A, shall file their returns on or  
13 20 before the fifteenth day of the fifth month following the  
13 21 close of the taxable year. If, under the Internal Revenue  
13 22 Code, a corporation is required to file a return covering a  
13 23 tax period of less than twelve months, the state return shall  
13 24 be for the same period and is due forty-five days after the  
13 25 due date of the federal tax return, excluding any extension of  
13 26 time to file. In case of sickness, absence, or other  
13 27 disability, or if good cause exists, the director may allow  
13 28 further time for filing returns. The director shall cause to  
13 29 be prepared blank forms for the returns and shall cause them  
13 30 to be distributed throughout the state and to be furnished  
13 31 upon application, but failure to receive or secure the form  
13 32 does not relieve the taxpayer from the obligation of making a  
13 33 return that is required. The department may as far as  
13 34 consistent with the Code draft income tax forms to conform to  
13 35 the income tax forms of the internal revenue department of the  
14 1 United States government. Each return by a taxpayer upon whom  
14 2 a tax is imposed by section 422.5 shall show the county of the  
14 3 residence of the taxpayer. For tax years beginning on or  
14 4 after January 1, 2004, the director shall not prescribe and no

~~14 5 longer accept income tax returns of married persons filing~~  
~~14 6 separately on the combined return form.~~

14 7 An individual in the armed forces of the United States  
14 8 serving in an area designated by the president of the United  
14 9 States or the United States Congress as a combat zone or as a  
14 10 qualified hazardous duty area, or an individual serving in  
14 11 support of those forces, is allowed the same additional time  
14 12 period after leaving the combat zone or the qualified  
14 13 hazardous duty area, or after a period of continuous  
14 14 hospitalization, to file a state income tax return or perform  
14 15 other acts related to the department, as would constitute  
14 16 timely filing of the return or timely performance of other  
14 17 acts described in section 7508(a) of the Internal Revenue  
14 18 Code. For the purposes of this paragraph, "other acts related  
14 19 to the department" includes filing claims for refund for any  
14 20 tax administered by the department, making tax payments other  
14 21 than withholding payments, filing appeals on the tax matters,  
14 22 filing other tax returns, and performing other acts described  
14 23 in the department's rules. The additional time period allowed  
14 24 applies to the spouse of the individual described in this  
14 25 paragraph to the extent the spouse files jointly ~~or separately~~  
~~14 26 on the combined return form~~ with the individual or when the  
14 27 spouse is a party with the individual to any matter for which  
14 28 the additional time period is allowed.

14 29 Sec. 17. Section 422.21, unnumbered paragraph 5, Code  
14 30 2003, is amended by striking the unnumbered paragraph.

14 31 Sec. 18. Section 422.21, unnumbered paragraph 7, Code  
14 32 2003, is amended to read as follows:

14 33 If married taxpayers file a joint return ~~or file separately~~  
~~14 34 on a combined return~~ in accordance with rules prescribed by  
14 35 the director, both spouses are jointly and severally liable  
15 1 for the total tax due on the return, except when one spouse is  
15 2 considered to be an innocent spouse under criteria established  
15 3 pursuant to section 6015 of the Internal Revenue Code.

15 4 Sec. 19. Section 422.11B, Code 2003, is repealed.

#### 15 5 COORDINATING AMENDMENTS

15 6 Sec. 20. Section 12D.9, subsection 2, Code 2003, is  
15 7 amended to read as follows:

15 8 2. State income tax treatment of the Iowa educational  
15 9 savings plan trust shall be as provided in section 422.7,  
15 10 ~~subsections 32, 33, and 34~~ subsection 1, paragraph "e", and  
15 11 subsection 2, paragraph "h", and section 422.35, subsection

15 12 14.

15 13 Sec. 21. Section 217.39, Code 2003, is amended to read as  
15 14 follows:

15 15 217.39 PERSECUTED VICTIMS OF WORLD WAR II == REPARATIONS  
15 16 == HEIRS.

15 17 Notwithstanding any other law of this state, payments paid  
15 18 to and income from lost property of a victim of persecution  
15 19 for racial, ethnic, or religious reasons by Nazi Germany or  
15 20 any other Axis regime or as an heir of such victim which is  
15 21 exempt from state income tax as provided in section 422.7,  
15 22 ~~subsection 35~~ 2, paragraph "k", shall not be considered as  
15 23 income or an asset for determining the eligibility for state  
15 24 or local government benefit or entitlement programs. The  
15 25 proceeds are not subject to recoupment for the receipt of  
15 26 governmental benefits or entitlements, and liens, except liens  
15 27 for child support, are not enforceable against these sums for  
15 28 any reason.

15 29 Sec. 22. Section 422.120, subsection 1, paragraph b,  
15 30 subparagraph (3), Code 2003, is amended to read as follows:

15 31 (3) The annual index factor for the 1997 calendar year is  
15 32 one hundred percent. ~~For each subsequent the 1998 through~~  
~~15 33 2002 calendar year years,~~ the annual index factor equals the  
15 34 annual inflation factor for that calendar year as computed in  
15 35 section 422.4 for purposes of the individual income tax. ~~For~~  
16 1 the 2003 calendar year and each subsequent calendar year the  
16 2 annual index factor shall be determined by the department by  
16 3 October 15 of the calendar year preceding the calendar year  
16 4 for which the factor is determined, which reflects the  
16 5 purchasing power of the dollar as a result of inflation during  
16 6 the fiscal year ending in the calendar year preceding the  
16 7 calendar year for which the factor is determined. In  
16 8 determining the annual index factor, the department shall use  
16 9 the annual percent change, but not less than zero percent, in  
16 10 the gross domestic product price deflator computed for the  
16 11 second quarter of the calendar year by the bureau of economic  
16 12 analysis of the United States department of commerce and shall  
16 13 add all of that percent change to one hundred percent. The  
16 14 annual index factor and the cumulative index factor shall each  
16 15 be expressed as a percentage rounded to the nearest one-tenth

16 16 of one percent. The annual index factor shall not be less  
16 17 than one hundred percent.

16 18 Sec. 23. Section 425.23, subsection 4, paragraph b, Code  
16 19 2003, is amended to read as follows:

16 20 b. The annual adjustment factor for the 1998 base year is  
16 21 one hundred percent. For ~~each subsequent the 1999 through~~  
16 22 ~~2002 base year years~~, the annual adjustment factor equals the  
16 23 annual inflation factor for the calendar year, in which the  
16 24 base year begins, as computed in section 422.4 for purposes of  
16 25 the individual income tax. ~~For the 2003 base year and each~~  
16 26 ~~subsequent base year, the annual adjustment factor equals the~~  
16 27 ~~annual index factor, in which the base year begins, as~~  
16 28 ~~computed in section 422.120, subsection 1, for purposes of the~~  
16 29 ~~livestock production tax credit.~~

16 30 Sec. 24. Section 450.4, subsection 8, Code 2003, is  
16 31 amended to read as follows:

16 32 8. On the value of that portion of any lump sum or  
16 33 installment payments which are received by a beneficiary under  
16 34 an annuity which was purchased under an employee's pension or  
16 35 retirement plan which was excluded from net income ~~as set~~  
17 1 ~~forth in under~~ section 422.7, ~~subsection 31.~~

17 2 Sec. 25. Section 541A.2, subsection 7, unnumbered  
17 3 paragraph 1, Code 2003, is amended to read as follows:

17 4 An individual development account closed in accordance with  
17 5 this subsection is not subject to the limitations and benefits  
17 6 provided by this chapter but is subject to state tax in  
17 7 accordance with the provisions of section 422.7, subsection ~~20~~  
17 8 ~~2, paragraph "g",~~ and section 450.4, subsection 6. An  
17 9 individual development account may be closed for any of the  
17 10 following reasons:

17 11 Sec. 26. Section 541A.3, subsection 2, Code 2003, is  
17 12 amended to read as follows:

17 13 2. Income earned by an individual development account is  
17 14 not subject to state tax, in accordance with the provisions of  
17 15 section 422.7, subsection ~~20~~ 2, paragraph "g".

17 16 EFFECTIVE AND APPLICABILITY DATE PROVISION

17 17 Sec. 27.

17 18 1. Except as provided in subsection 2, this division of  
17 19 this Act takes effect January 1, 2004, for tax years beginning  
17 20 on or after that date.

17 21 2. The section of this division of this Act repealing  
17 22 section 422.11B takes effect January 1, 2007, for tax years  
17 23 beginning on or after that date.

17 24 DIVISION II

17 25 SALES AND USE TAX STUDIES

17 26 Sec. 28. INDUSTRIAL PROCESSING EXEMPTION STUDY COMMITTEE.  
17 27 On or before July 1, 2003, the department of revenue and  
17 28 finance shall initiate and coordinate the establishment of an  
17 29 industrial processing exemption study committee and provide  
17 30 staffing assistance to the committee. It is the intent of the  
17 31 general assembly that the committee shall include  
17 32 representatives of the department of revenue and finance,  
17 33 department of management, industrial producers including  
17 34 manufacturers, fabricators, printers and publishers, and an  
17 35 association that specifically represents business tax issues,  
18 1 and other stakeholders.

18 2 The industrial processing exemption under the sales and use  
18 3 tax is a significant exemption for business. The committee  
18 4 shall study and make legislative and administrative  
18 5 recommendations relating to Iowa's processing exemption to  
18 6 ensure maximum utilization by Iowa's industries.

18 7 The committee shall study and make recommendations  
18 8 regarding all of the following:

18 9 1. The current sales and use tax industrial processing  
18 10 exemption.

18 11 2. The corresponding administrative rules, including a  
18 12 review and recommendation of an administrative rules process  
18 13 relating to the industrial processing exemption prior to  
18 14 filing with the administrative rules review committee.

18 15 3. Other states' industrial processing exemptions.

18 16 4. Recommendations for change for issues including  
18 17 effectiveness and competitiveness.

18 18 5. Development of additional publications to improve  
18 19 compliance.

18 20 The committee shall annually report to the general assembly  
18 21 by January 1 of each year through January 1, 2013.

18 22 Sec. 29. IOWA SALES, SERVICES, AND USE TAX STUDY

18 23 COMMITTEE. On or before July 1, 2003, the department of  
18 24 revenue and finance shall initiate and coordinate the  
18 25 establishment of a state sales, services, and use tax study  
18 26 committee and provide staffing assistance to the committee.



18 27 It is the intent of the general assembly that the committee  
18 28 shall include representatives of the department of revenue and  
18 29 finance, department of management, an association of Iowa  
18 30 farmers and other agricultural interests, retail associations,  
18 31 contractors, taxpayers, an association that specifically  
18 32 represents business tax issues and other stakeholders, two  
18 33 members of the general assembly, and a representative of the  
18 34 governor's office.

18 35 The committee shall study the current sales, services, and  
19 1 use tax law. Programs funded through special features of the  
19 2 tax code often escape regular review. It is intended that the  
19 3 study committee shall review the current sales, services, and  
19 4 use tax exemptions to improve government accountability.

19 5 The committee shall study and make recommendations  
19 6 regarding all of the following:

19 7 1. Retaining or eliminating current sales, services, and  
19 8 use tax exemptions or providing new exemptions. The decision  
19 9 shall be based at least partially on the issues of  
19 10 effectiveness and competitiveness and their impact on economic  
19 11 behavior.

19 12 2. Tax simplification and consistency issues in applying  
19 13 the tax, including recordkeeping burdens on retailers and  
19 14 application by the department of revenue and finance.

19 15 3. Streamline sales tax implementation in Iowa.

19 16 4. The tax rate.

19 17 5. Comparison of Iowa sales, services, and use tax  
19 18 structure with other states.

19 19 The committee shall report to the general assembly by  
19 20 January 1, 2004. The report shall provide rationale for each  
19 21 decision made by the study committee.

#### 19 22 EXPLANATION

19 23 DIVISION I == Division I of this bill rewrites the state  
19 24 individual income tax by setting a flat rate of 3.5 percent of  
19 25 the taxable income. Most adjustments to federal adjusted  
19 26 gross income are eliminated. However, deductions for a  
19 27 portion of social security benefits and pensions received are  
19 28 maintained. In arriving at the taxable income, all of the  
19 29 itemized deductions allowed for federal tax purposes are  
19 30 eliminated. A standard deduction is provided which is equal  
19 31 to \$2,000 for each personal exemption the taxpayer is allowed  
19 32 under the federal tax code. An additional \$1,000 deduction is  
19 33 allowed if the individual or the individual's spouse is 65 or  
19 34 older or blind. The present personal credit is made  
19 35 contingent on the amount of net income. This amounts to a  
20 1 maximum income of \$25,000 for single filers and \$50,000 for  
20 2 joint filers and heads of households. The deduction for  
20 3 federal income taxes paid is eliminated. The alternative  
20 4 minimum tax is eliminated. The division also retains the  
20 5 present credits that are allowed except for the minimum tax  
20 6 credit which is eliminated beginning with the 2007 tax year.  
20 7 The ability of married persons to file separately on combined  
20 8 returns is eliminated. The division requires a three-fourths  
20 9 vote of members elected to each house to pass legislation that  
20 10 would increase the income tax rate or would impose an  
20 11 alternative minimum tax or individual income surtax. A person  
20 12 is not required to file a return if the person's net income is  
20 13 no more than \$15,000 for joint filers, heads of households,  
20 14 and surviving spouses, or no more than \$11,000 for single  
20 15 filers.

20 16 Division I of the bill takes effect January 1, 2004, for  
20 17 tax years beginning on or after that date.

20 18 DIVISION II == Division II of this bill requires the  
20 19 department of revenue and finance to establish two study  
20 20 committees. The first is to study the industrial processing  
20 21 exemption under the sales and use tax and report to the  
20 22 legislature annually through January 2013. The second is to  
20 23 study the entire sales and use tax law and report to the  
20 24 legislature with its recommendations by January 1, 2004. Both  
20 25 study committees would consist of representatives of  
20 26 organizations or businesses with interests in the issues.

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20 28 mg/sh/8